MANUFACTURING CIRCLE
EMPLOY . PRODUCE . PROSPER

SURVEY OF INVESTMENT INHIBITORS
January - June 2019

BACKGROUND AND OBJECTIVE

The Manufacturing Circle's recent survey for the first half of 2019 was conducted to better understand industry views on key inhibitors to investment and recommendations as to how to address these blockages.

This exercise follows our ongoing initiative, a Map to a Million new jobs in manufacturing in a decade.

Here, in addition to reviewing inhibitors to investment, recommendations to address blockages have been prioritised, and companies have also indicated the possible impact on their manufacturing operations if these constraints were to be minimised.

This initiative remains relevant, especially given the release of the recent employment statistics which reflect an increase in the official unemployment rate to 29% in the 2nd Quarter of 2019. This figure is the highest recorded since 2008.

SURVEY METHODOLOGY

Survey questions were developed from our Map to a Million work, where the following key inhibitors to manufacturing investment and growth were identified:

- Local demand (weak local demand for company products)
- Input costs (insufficient incentives, skills and infrastructure)
- Regulatory constraints (poor regulation, co-ordination and implementation)
- Energy (unreliable and expensive)
- Export demand (weak export demand)
- Local government (poor service delivery)
- Enforcement (weak monitoring and enforcement of tariffed imported goods, and local content designation)

Respondents were asked to rank these from least significant inhibitor to most significant inhibitor, on a scale of 1 – 7.

Next, recommendations to address each inhibitor were suggested and respondents again were asked to prioritise from least significant recommendation to most significant recommendation, on a scale from 1 to 3.

Lastly, respondents were asked to rank the likely impact of prioritising these recommendations on production, capital investment, financial performance and employment; on a scale from no change, small change (up to 20% increase) and significant change (more than 20% increase).

SUMMARY FINDINGS AND OUTLOOK

Constraints affecting financial performance in last 6 months

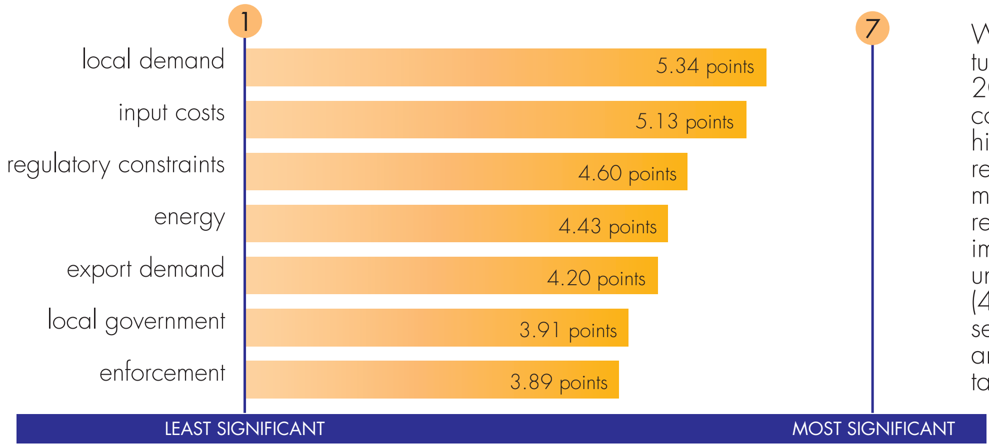

Figure 1: Constraints according to significance

Weak domestic demand for locally manufactured products for the period January to July 2019 was ranked as the most significant constraint (5.34 points out of 7) followed by high input costs (5.13). In addition to this are regulatory costs (4.60) that disadvantage manufacturing companies in terms of poor regulation, lack of coordination and weak implementation. Manufacturers also flagged unreliable and expensive energy source (4.43), weak export demand (4.20), poor service delivery from local government (3.91) and weak enforcement in terms of monitoring tariffs and local content designation (3.89).

Recommendations that will reduce the blockages to investment

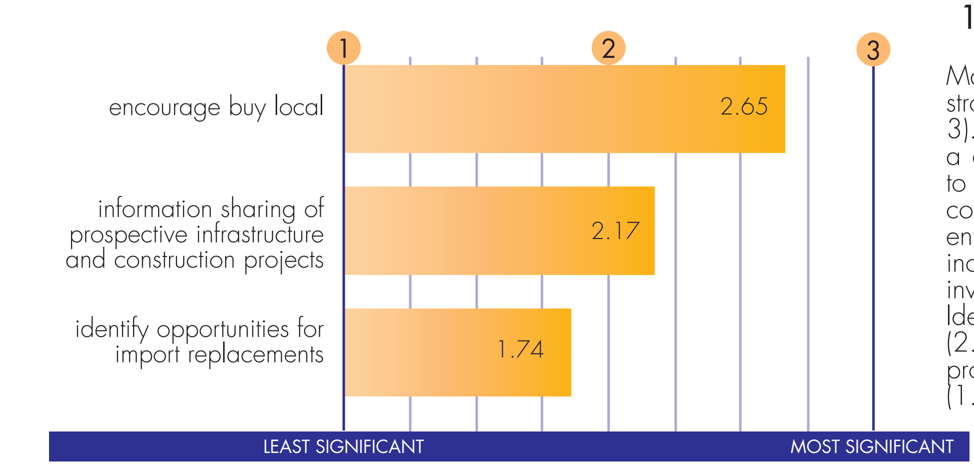

Figure 2: Increase local demand

1 LOCAL DEMAND

Manufacturing companies are advocating for a stronger buy local campaign (2.65 points out of 3). The government has already embarked on a drive to encourage consumers and businesses to buy locally produced goods, through its local content designation initiative for government entities. Ways in which the private sector can increase local procurement are currently being investigated by the Manufacturing Circle.
Identifying opportunities for import replacement (2.17) and better information dissemination on prospective infrastructure and construction projects (1.74) were recommendations ranked second and third respectively.

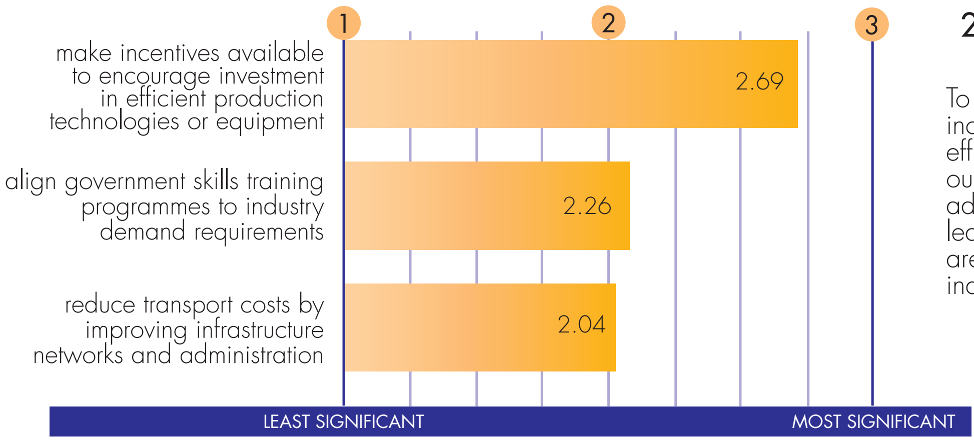

Figure 3: Reduce input costs

2 INPUT COSTS

To reduce input costs, manufacturers recommend increased incentives to encourage investment in efficient production technologies (2.69 points out 3), improving infrastructure networks and administration (2.26) and relevant skills transfer to learners in government training programmes that are aligned to the demands in the manufacturing industry (2.04).

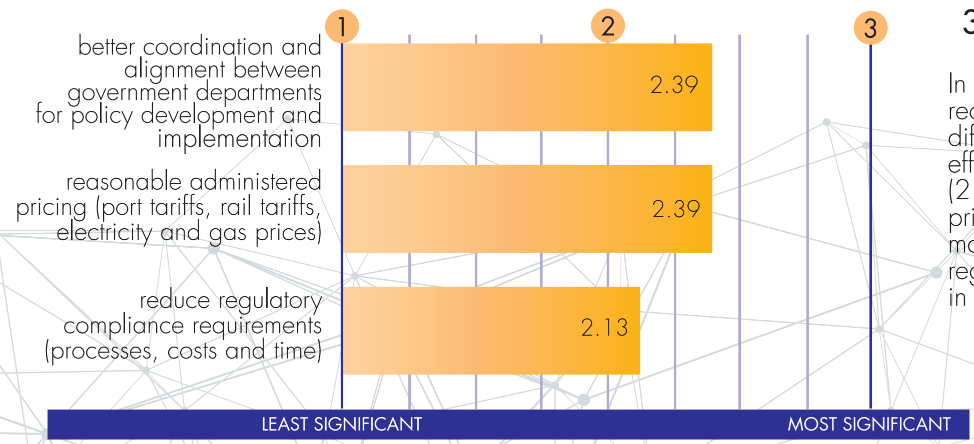

Figure 4: Reduce regulatory costs

3 REGULATORY CONSTRAINTS

In terms of regulatory constraints, manufacturers recommend alignment and coordination among different regulating government departments for efficient policy regulation and implementation (2.39 points out of 3), reducing administered prices (including rail, port and electricity prices) to make them more reasonable (2.39) and making regulatory compliance requirements more efficient in terms of processes, cost and time (2.13).

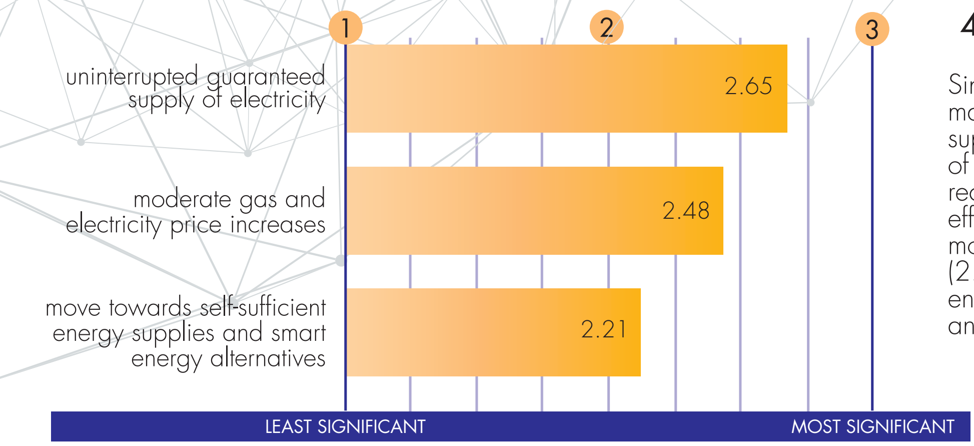

Figure 5: Reduce energy costs

4 ENERGY

Since energy is an essential input in all manufacturing companies in South Africa, its supply and cost is significant in the production of quality products. Manufacturing companies recommend securing an uninterrupted and cost-efficient energy supply (2.65 points out of 3), moderating the prices for gas and electricity (2.48) and moving towards more self-sufficient energy sources which could help them to secure and control the supply of energy (2.21).

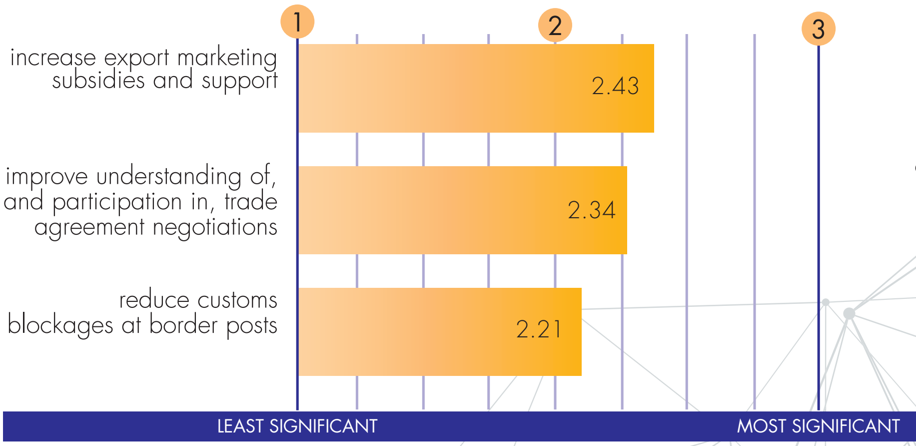

Figure 6: Increase export demand

5 EXPORT DEMAND

Export demand constraints should be addressed by increasing export marketing subsidies for manufacturing companies (2.43 points out of 3), reducing custom blockages at borders (2.34) and improving understanding of and participation in trade negotiation agreements (2.21).

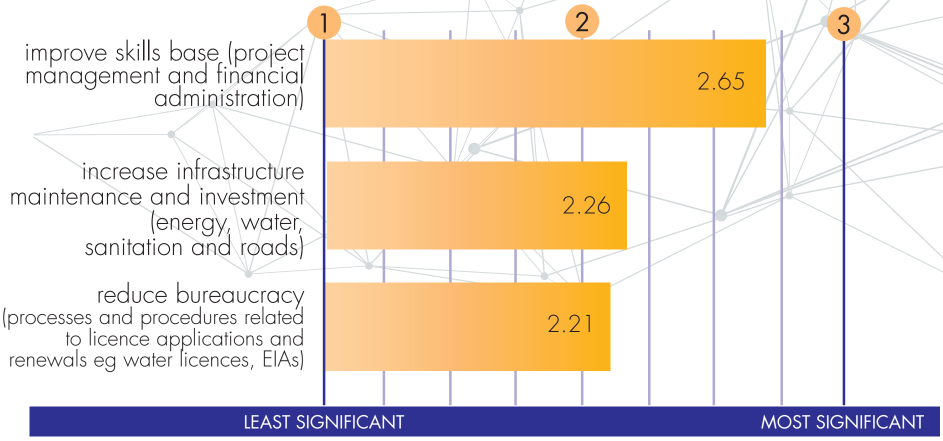

Figure 7: Improve local government

6 LOCAL GOVERNMENT

To improve local government services, manufacturing companies recommend an increase in infrastructure maintenance and investment (2.65 points out of 3), an improvement in the personnel skills base, in terms of project management and financial administration (2.26) and a reduction in bureaucracy in processes and procedures related to licensing and renewals (2.21).

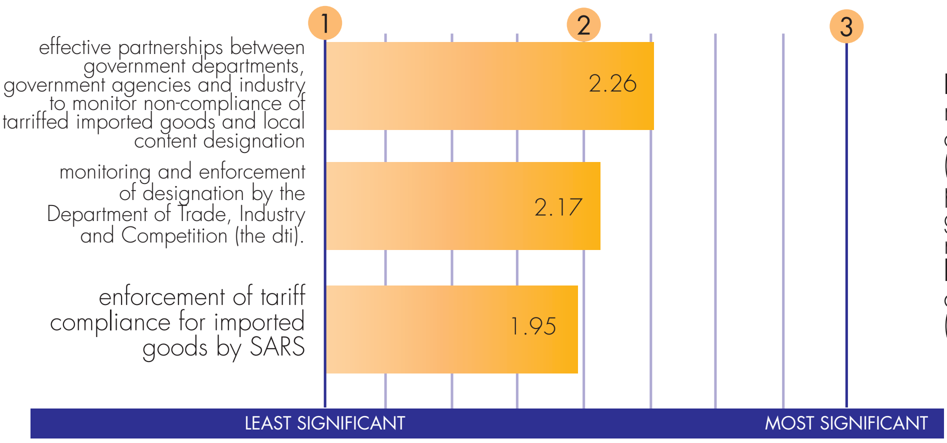

Figure 8: Improve enforcement

7 ENFORCEMENT

In terms of enforcement, manufacturers recommend stricter regulation of tariff compliance for imported goods by SARS (2.26 points out of 3). In addition, effective partnerships between government departments, government agencies and industry to monitor non-compliance of tariffed imported goods and local content designation (2.17) and monitoring and enforcement of designation by the DTIC (1.95) are required.

Predicted economic impact on manufacturing companies

The survey also investigated the potential impact of the recommendations on production, capital investment, financial performance and employment.

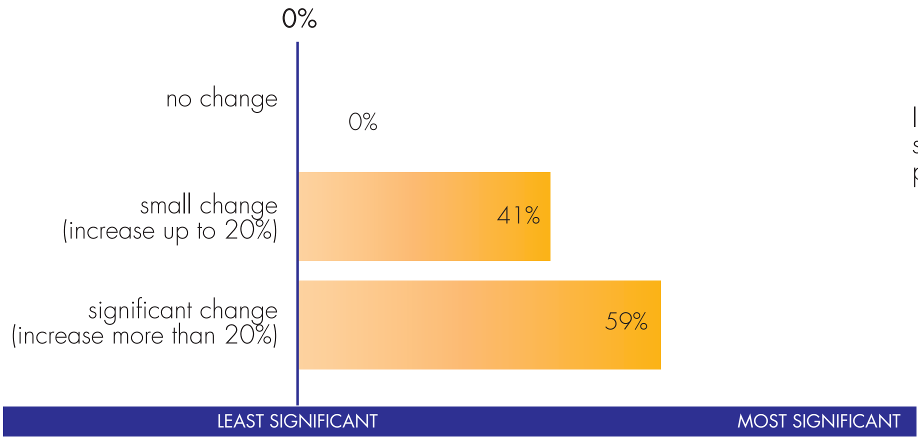

Figure 9: Impact on Production

1 PRODUCTION

If the constraints are resolved, 41% of companies surveyed expect a more than 20% increase in production.

2 CAPITAL INVESTMENT

The expected impact on capital investment includes 9% of manufacturing companies expecting no change, 50% expecting a more than 20% improvement and 41% expecting up to 20% increase.

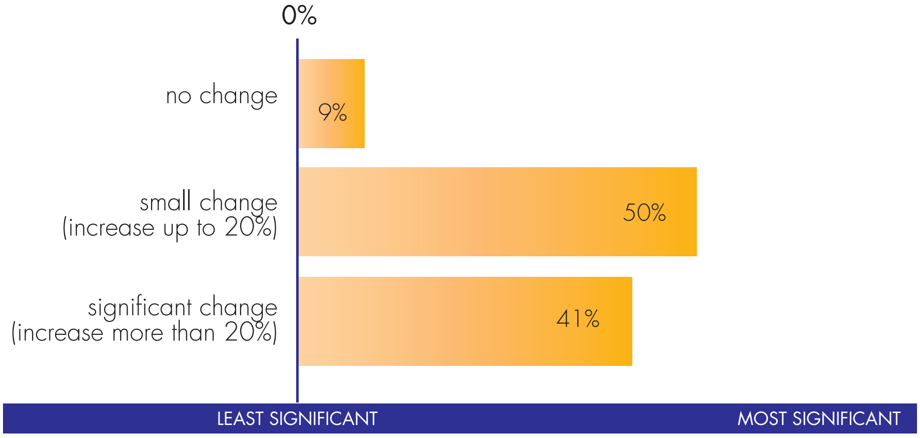

Figure 10: Impact on Capital Investment

3 FINANCIAL PERFORMANCE

The perceived impact on financial performance includes 5% of manufacturing companies expecting no change, 32% expecting more than 20% improvement and 63% an up to 20% increase.

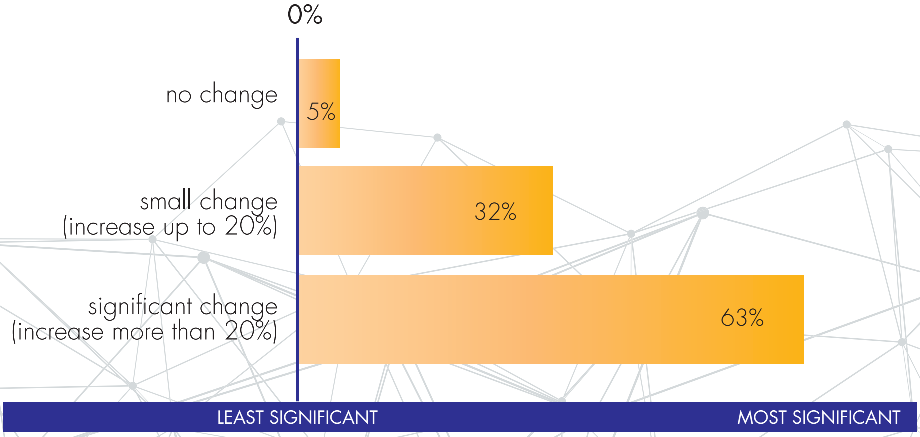

Figure 11: Impact on Financial Performance

4 IMPACT ON EMPLOYMENT

The anticipated impact on employment includes 9% of manufacturing companies expecting no change, 64% a more than 20% increase and 27% up to 20% growth.

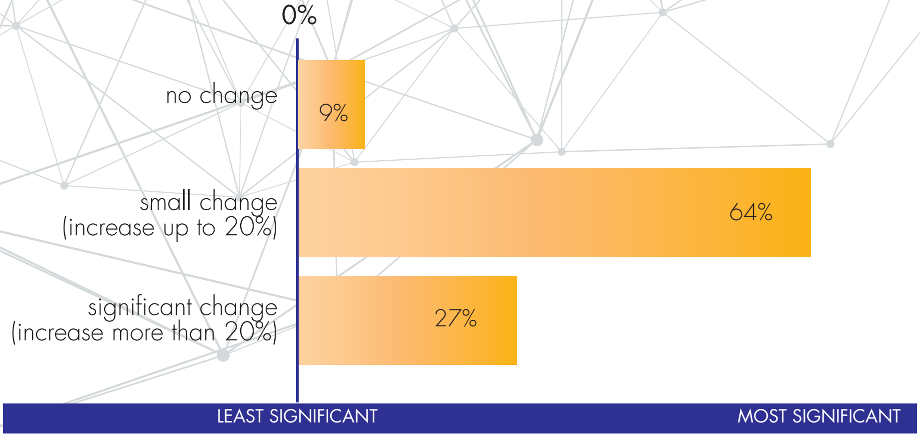

Figure 12: Impact on employment

CONCLUSION

The Manufacturing Circle's Investment Inhibitor Survey conducted for the first half of 2019 provides a guide to identifying blockages to manufacturing investment, prioritising recommendations to address the issues and possible impact on manufacturing growth and investment.

The most significant blockage to investment has been identified as weak local demand, followed by high input and regulatory costs, an unreliable and expensive energy source, weak export demand, poor service delivery from local government; and weak enforcement in terms of monitoring tariffs and local content designation.

Recommendations to address each of these blockages are provided and ranked, which will assist the Manufacturing Circle in focusing its initiatives in areas where maximum impact in growing the sector can be anticipated.

If the blockages were to be resolved, positive impact on company production, capital investment, financial performance and employment can be anticipated.

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